

TALKING POINTS FOR THE DCI

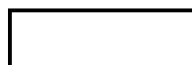
NSC MEETING, 21 July 1982, ON THE US POLICY OF DIFFERENTIATION
TOWARD EASTERN EUROPE

The situation of the martial law regime in Poland speaks, in addition, to a larger truth: the states of Eastern Europe have developed since the death of Stalin (1953) in such divergent directions that it is very difficult to generalize about them.

- Financially, they range from bankrupt Poland to sound Bulgaria.
- Economically, they range from industrially developed East Germany and Czechoslovakia to the more agrarian-based economies of Bulgaria and Romania.
- Politically, they range from Stalinist Czechoslovakia to permissive Hungary.
- And militarily they range from loyal Warsaw Pact member East Germany to independent-minded Romania.

That said, most of the states of the area find themselves in conditions of economic distress for a variety of internal and external reasons: Poor economic management, imprudent borrowing,

-1-
TOP SECRET



25X1

TOP SECRET

25X1

decreased Soviet energy supplies, and a Western market shrunk by recession.

Lacking alternatives, the East Europeans' strategy for coping with this economic distress has been to cut back on imports and investment, which means they are paying a price in terms of economic growth and ultimately in standards of living. In turn, this means that we can expect a period of increased political instability in Eastern Europe within the regime leaderships and between the regimes and their peoples until economic conditions ease. Political conditions in the area will be further unsettled by the Brezhnev succession process in the Soviet Union, during which the East Europeans will be less certain what Moscow expects of them.

We cannot predict precisely how each state will react to these changing circumstances, but we can foresee that no two states will act exactly alike. Different histories, leadership constellations, and national socio-political factors will see to that:

- Thus in East Germany the regime seems to be looking for greater financial succor in the West, but without changing any of its repressive, pro-Soviet policies.

- In Czechoslovakia, there are signs of a serious leadership debate over political-economic issues.

-2-

TOP SECRET

25X1

TOP SECRET

25X1

- In Bulgaria, there is information suggesting that President Zhivkov feels that the centrally controlled economic system must be modified.

- In Hungary, we have extremely sensitive information which suggests that the Hungarians are challenging the USSR on Warsaw Pact military matters.

All in all, while the proximity of Soviet military power will make it impossible for the West to dictate events, the increasingly evident bankruptcy of the Soviet-type systems will precipitate changes. The changes could:

- increase the US ability to influence developments, especially in encouraging regimes which choose to move in directions we prefer;

- or, conversely, produce policies we find distasteful enough to retaliate against.

-3-
TOP SECRET

25X1

E